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BEFORE THE ARIZONA CORPORATION COMMISSION



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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY, FOR
AUTHORITY TO IMPLEMENT STEP ONE OF ITS
ARSENIC COST RECOVERY MECHANISM FOR
ITS TUBAC WATER DISTRICT

Docket Nos. WS-01303A-02-0867
WS-01303A-02-0869
WS-01303A-02-0870
W-01303A-05-0280

**FILING OF COMMENTS AND PROPOSED EXCEPTION
TO A COMMISSION STAFF RECOMMENDED ORDER AND DECISION**

17 August 2010

This filing provides comments and a proposed Exception to the Commission Staff's Proposed Order dated 10 August 2010 that was in response to the Arizona-American Water Company's Application dated 5 March 2010 to implement Arsenic Cost Recovery Mechanism Step One for its Tubac Water District in the above dockets.

I will not be able to attend the Open Meeting on 24 August 2010 due to prior commitment as a Precinct Poll Worker on that date.

I certify this filing has been emailed or mailed to the Commission, RUCO, and Company on the Service List. My contact information and addresses are below.

Respectfully submitted on this 17th day of August 2010

MARSHALL MAGRUDER

By

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**COMMENTS AND
PROPOSED EXCEPTION
TO A COMMISSION STAFF RECOMMENDED ORDER AND DECISION**

1. Scope of these Comments.

The Commission Staff has prepared an excellent analysis and proposed Order to implement the Arizona-American Water Company's proposed Step One Arsenic Cost Recovery Mechanism (ACRM) of 5 March 2010.

In the ongoing Arizona-American Water Company (AAWC or the Company) rate case, in ACC Docket Nos. W/WS-01303A-09-0343, in Rate Consolidation and Rate Structure, Phase II, Marshall Magruder has proposed Consolidated Rates for all the Company's water districts.¹ If approved by the Commission, no future ACRM or similar single-district rate adjustments would be appropriate. This Step One ACRM will be decided prior to a Commission decision concerning rate consolidation and new rate structures for all eight statewide AAWC water districts.

In summary, the Present, Magruder's Consolidated Rates, Company's Proposed ACRM, Commission Staff Recommended ACRM Customer Charges are shown in Table 1 as follows:

Table 1 – Comparison of Customer Charges with and without ACRM

| Service | Present Rates | | Magruder's Consolidated ² (Res/Comm) | Company's Proposed ACRM ³ | Staff's Recommended ACRM (GWB-3/GWB-4) ⁴ |
|----------------|---------------|------------|--|--------------------------------------|--|
| | Residential | Commercial | | | |
| 5/8 & 3/4-inch | \$24.70 | \$74.10 | \$14.50/\$17.50 | \$3.99 | \$2.42/\$2.42 |
| 1-inch | \$144.38 | \$144.38 | \$20.00/\$30.00 | unreadable | \$7.27/\$7.26 |
| 1 1/2-inch | \$230.53 | \$230.53 | \$70.00 | unreadable | \$14.17/\$14.15 |
| 2-inch | \$461.00 | \$461.00 | \$110.00 | unreadable | \$22.62/\$22.59 |
| 3-inch | \$722.00 | \$722.00 | \$250.00 | unreadable | \$45.24/\$45.17 |
| 4-inch | \$1,440.00 | \$1,440.00 | \$400.00 | unreadable | \$70.86/\$70.74 |
| 6-inch | \$2,305.00 | \$2,305.00 | \$710.00 | unreadable | \$141.32/\$141.09 |

This water district presently has no customers with larger than 3-inch service.

The Volumetric Charge presently in this Water District in the Company's proposed ACRM and Staff Recommended ACRM are shown in Table 2 below. The smallest water consuming customers have the greatest Volumetric Charge increases, from 22.5% for customers with less than 3,000 gallons consumption, equivalent to Magruder's Consolidated Rate LIFELINE, and a 14.2% for 3,001 to 10,000 gallons. This is well over 75% of the customers in this district. Table 3 shows Tubac Median 5/8 & 3/4- and 1-inch residential customers have a 7,000-gallon consumption.

¹ The proposed Magruder Consolidated Rates are in the Magruder Reply Brief of 6 August 2010 in Attachment A.

² *Id.* The Magruder's Consolidated Rates have lower residential Customer Charges for the first two service classes when compared to commercial charges above 1-inch service when they are the same. The Company does not have potable water charges for larger than 6-inch but has private firewater service through 12-inch.

³ AAWC Tubac Water District Step One ACRM filing of 5 March 2010. The CD associated with this filing has customer charges but is unreadable.

⁴ Commission Open Meeting Memorandum of 10 August 2010, hereafter Staff Memo, Schedule GWB-3 line 12 shows \$7.27 while Schedule GWB-4 shows \$7.26. Other differences are also shown.

Table 2 – Comparison of Volumetric Charges with and without ACRM

| Service Categories | Volumetric Tier | Present Rate | Company's Proposed ACRM | Company's Percent Increase | Recommended Staff's ACRM | Staff's Percent Increase |
|----------------------------|-----------------|--------------|-------------------------|----------------------------|--------------------------|--------------------------|
| 5/8 & 3/4-inch Residential | 0 to 3000 | \$1.90 | \$0.7040 | 37.1% | \$0.4273 | 22.5% |
| | 3,001-10,000 | \$3.00 | \$0.7040 | 23.4% | \$0.4273 | 14.2% |
| | 10,001-20,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 20,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 5/8 & 3/4-inch Commercial | 0 to 20,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 20,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 1-inch | 0 to 35,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 35,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 1 1/2-inch | 0 to 85,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 85,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 2-inch | 0 to 150,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 150,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 3-inch | 0 to 175,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 175,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 4-inch | 0 to 250,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 250,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |
| 6-inch | 0 to 350,000 | \$4.00 | \$0.7040 | 17.6% | \$0.4273 | 10.7% |
| | over 350,000 | \$6.00 | \$0.7040 | 11.7% | \$0.4273 | 7.1% |

Magruder's Consolidated Rates propose five volumetric tiers for residential and four tiers for commercial customer classes in each service category. The first residential and commercial tiers have a low volumetric charge of \$0.98/1000 gallons for the first 3,000 gallons, a water **LIFELINE** for all customers. The second residential (first commercial) tier is \$2.50, third is \$3.00, fourth is \$3.50, and \$4.00 for the fifth tier. These conservation-oriented rates have tier breakpoints so price signals are obvious and a \$0.50 rate change at each breakpoint. Attachment A to the Magruder Opening Brief, *op. cit.*, provides the tiers and breakpoints for each customer category.

Table 2 shows that as water consumption increases, the additional volumetric charges decrease, which is opposite of water conservation-oriented rates. This should be corrected so that either

- (1) A constant rate (in percent) as an additional volumetric charge for all tiers or
- (2) For water conservation purposes, the volumetric rate increases with water consumption.

In the ongoing Rate Consolidation hearings, the Median⁵ water-consuming customer was considered a better basis to determine a typical customer's bill than Average consumption. The Median customer's consumption is the water volume consumed where 50% of the customers consume more and 50% consume less in a month. The Average consumption is determined by dividing the total water used by the number of customers in the rate category. In general, the water usage distribution curve has a very "long tail" with highest water users skewing Average away from most customers.

⁵ The definitions for Median and Average are standard. The label "mean" is used in the Company's Rate Consolidation Model along with Average for its typical bill analysis instead of Median in the rate consolidation case. To avoid any confusion, the Median and Average consumption are provided in this typical bill analysis.

The Magruder filings provide typical customer bills for residential 5/8 & 3/4-inch and 1-inch service. The residential Median and Average typical bill impacts are shown in Table 3.

Table 3 – Typical Residential Bills based on Monthly Consumption

| Service Category | Monthly Consumption | | Present Typical Bill | Present Typical Bill <u>with</u> ACRM | | Magruder Typical Bill | |
|------------------|----------------------|--------|----------------------|---------------------------------------|---------------------|----------------------------------|--------------------------|
| | | | | Company Proposed ACRM | Staff Proposed ACRM | Proposed Consolidated Rates Bill | with Staff Proposed ACRM |
| 5/8" & 3/4" | Average ⁶ | 11,740 | \$58.36 | \$70.51 | \$65.74 | \$40.16 | \$47.54 |
| | | 10,690 | \$54.16 | \$65.68 | \$61.15 | \$37.01 | \$43.99 |
| | Median | 7,000 | \$42.40 | \$51.33 | \$47.81 | \$27.44 | \$37.29 |
| 1" | Average | 18,758 | \$149.14 | \$169.63 | \$159.14 | \$66.71 | \$82.00 |
| | Median | 7,000 | \$102.10 | \$115.28 ⁷ | \$111.87 | \$32.94 | \$43.17 |

2. Exception.

Based on the results of the ongoing Company Rate Consolidation (phase II) case, if rate consolidation is approved for all Company water districts, then the ACRM customer and volumetric charges become an issue. Step One ACRM was ordered in Commission Decision No. 71410 that also ordered a review and possible adoption of consolidated rates. In my opinion, Step One ACRM is an expected rate adjustment prior to Consolidated Rates. However, after Consolidated Rates have been approved, then there should be no new ACRM rate adjustments as all customers share these Company revenue requirements. Thus, the Step One ACRM should continue for twelve (12) months after Commission approval of the Step One. Any additional or further ACRM revenue requirements, if consolidated rates are approved, should not be charged to specific districts but to all water districts.

Therefore, the Tubac Water District should have the ACRM rate adjustment for 12 months, and future ACRM charges, such as the customary Step Two ACRM charges would accumulate in the revenue requirements for the next Company rate case and not be charged directly to customers in the Tubac District.

See the Attachment for Magruder Exception One to the proposed Order.

3. Recommendations.

The following are recommended:

- That the Commission review and approve Magruder Exception One.
- That the Commission approves the Commission Staff proposed Order with Exception One.
- That the RUCO recommendation to approve the Company's request be denied.

⁶ Average consumption for 5/8" & 3/4" customers is from Decision No. 71410 and Company's ACRM Application, respectively.
⁷ As shown in Table 1, the Company's proposed ACRM customer charge was not readable on the CD provided by the Company. A customer charge for 1-inch service of \$8.00 was assumed in this table.

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3 **MAGRUDER EXCEPTION ONE**
4

5 1. Summary. This exception deletes the ACRM Step Two rate adjustments for water districts after
6 Commission approval of consolidated rates for Arizona American Water Company. If the Commission
7 does not approve rate consolidation, then this Exception will not impact the ACRM Step Two
8 processes.
9

10 2. Amend the Proposed Decision as follows:

11 a. On Page 3, ADD the following in line 21 at the end of paragraph 13.
12

13 "Decision 71410 also deferred a decision concerning rate consolidation to a
14 later rate case. Phase II of the ongoing Company water rate case in Docket
15 No. W-01303A-09-0343 is considering consolidating rates for all water
16 districts. If that case decides all water districts will have consolidated rates,
17 then this Step One ACRM rate adjustment shall expire 12 months after
18 approval. Further, all future ACRM expense recovery, including Step Two
19 ACRM for this water district, shall be adjudicated in the next water rate case
20 as a consolidated expense and not as an expense for any one water district."
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